

Message Text

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ACTION ARA-10

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C O N F I D E N T I A L QUITO 8977

FOR DELIVERY OPENING OF BUSINESS 0900 DEC. 29

E.O. 11652: GDS
TAGS: EINV, ENRG, PFOR, EC
SUBJECT: GULF NEGOTIATIONS

REF: QUITO 8960

1. SUMMARY: I CALLED ON ADMIRAL POVEDA THIS AFTERNOON AND EXPRESSED IN STRONG TERMS MY CHAGRIN AT THE DECISION OF THE SUPREME COUNCIL TO TRY TO PRODUCE A DECREE ON THE GULF MATTER BY DECEMBER 31. HE CONFIRMED MY SUSPICIONS THAT A DECREE WAS THE PRICE OF GETTING RID OF MINISTER OF NATURAL RESOURCES VARGAS. HE AGREED TO WORK WITH ME TO DESIGN A DECREE THAT WOULD NOT PREJUDICE GULF'S INTERESTS. GULF IS MEETING AGAIN TONIGHT WITH THE VARGAS GROUP TO CONTINUE NEGOTIATIONS ON THE GOE DRAFT DECREE. TOMORROW I INTEND TO PRESENT POVEDA WITH AN ALTERNATIVE DECREE WHICH I AM WORKING OUT WITH GULF. END SUMMARY.

2. I OPENED THE CONVERSATION WITH POVEDA BY TELLING HIM THAT I FELT DISILLUSIONED AND DECEIVED. HE HAD ASSURED ME THAT THE GOVERNMENT WOULD NOT ATTEMPT TO PROMULGATE A DECREE BY DECEMBER 31 IN VIEW OF THE DIFFICULTY OF REACHING AGREEMENT WITH GULF. THEN HE HAD REVERSED HIMSELF. I TOLD HIM THAT EVEN WITH THE BEST OF FAITH ON BOTH SIDES

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IT WOULD BE EXTREMELY DIFFICULT TO REACH AN AGREEMENT OVER THESE COMPLICATED MATTERS IN ONLY A FEW DAYS, GIVEN THE FACT THAT THE MAN WHO WAS DOING THE NEGOTIATING FOR THE GOE, MINISTER OF NATURAL RESOURCES VARGAS, WAS NOT ACTING IN GOOD FAITH IT WAS OBVIOUSLY IMPOSSIBLE. I POINTED OUT THE RIDICULOUS CLAIMS

THAT VARGAS HAD PUT FORWARD IN ORDER TO REDUCE GULF'S NET BOOK VALUE TO THE "PROVISIONAL" FIGURE OF 82 MILLION DOLLARS. I REMINDED HIM OF HOW HARD I HAD TRIED TO GET SOME PROTECTION IN THE MEMORANDUM OF UNDERSTANDING AGAINST JUST SUCH AN EVENTUALITY AND HOW MINISTER ROBALINO AND HE, POVEDA, HAS ASSURED ME THAT THE GOVERNMENT WOULD NOT MAKE ANY EXAGGERATED CLAIMS. I TOLD HIM THE SUM AND SUBSTANCE OF ALL OF THIS WAS THAT THE GOVERNMENT HAD NOT ACTED IN GOOD FAITH AND THAT IT WOULD NOT HAVE A LEG TO STAND ON IF IT WERE TO PROMULGATE A DECREE THAT PREJUDICED GULF'S POSITION.

3. POVEDA ACTED SURPRISED AND SAID THAT THE NEGOTIATORS HAD TOLD HIM JUST A FEW MINUTES BEFORE THAT THE PROCESS WAS GOING WELL. I DISABUSED HIM OF THIS. WE HAD A LONG DEBATE OVER THE MERIT OF PUTTING IN THE 82 MILLION DOLLAR PROVISIONAL FIGURE. HE ARGUED THAT THE DECREE WOULD PROVIDE THAT THE ULTIMATE FIGURE WOULD BE DETERMINED BY AN INDEPENDENT AUDITING FIRM. I SUGGESTED TO HIM THAT WE BE POLITICALLY REALISTIC: ONCE THE 82 MILLION-DOLLAR FIGURE HAD BEEN SANCTIFIED BY A DECREE IT WOULD BE IMPOSSIBLE FOR ANY GOVERNMENT TO ACCEPT AN AUDITING FIRM'S ADJUSTMENT OF THE FIGURE BY MORE THAN A FEW MILLION DOLLARS. I SUGGESTED TO HIM THAT IT WOULD BE BETTER FOR THE GOVERNMENT TO PUT NO FIGURE IN THE DECREE AND SIMPLY SAY THAT THE FINAL FIGURE WOULD BE ESTABLISHED BY AN AUDIT.

3. HE FINALLY ADMITTED THAT THEY HAD TO HAVE A DECREE WHICH SEEMED TO TAKE GULF OVER AS OF 31 DECEMBER IN ORDER TO
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GET RID OF VARGAS. IF VARGAS WAS FIRED WITHOUT SUCH A DECREE THE COUNCIL WOULD IMMEDIATELY BE CHARGED WITH HAVING BEEN BOUGHT OFF BY GULF.

4. I SUGGESTED THAT SINCE A DECREE SEEMED TO BE ESSENTIAL, THE GOVERNMENT CONSIDER SIMPLY ADOPTING THE LANGUAGE IN THE GOE MEMORANDUM OF OCTOBER 1. SINCE THIS MEMORANDUM HAD NEVER BEEN MADE PUBLIC IT WOULD SATISFY THE POLITICAL NEED TO SHOW THAT THE GOVERNMENT HAD DONE SOMETHING AND IT WOULD NOT PREJUDICE GULF'S POSITION IN THE COURSE OF THE FUTURE NEGOTIATIONS. THE DECREE COULD PROVIDE THAT THE ULTIMATE SETTLEMENT WOULD BE RETROACTIVE TO DECEMBER 31. POVEDA NEITHER ACCEPTED NOR REJECTED MY PROPOSAL. INSTEAD, HE SUGGESTED THAT WE ALLOW THE TWO SIDES TO CONTINUE NEGOTIATING ON THE BASIS OF THE GOE DRAFT DECREE TONIGHT AND THEN GET TOGETHER TOMORROW TO SEE WHAT THE SITUATION WAS AT THAT TIME. I AGREED.

5. POVEDA SAID THAT HE THOUGHT DURAN'S HAND HAD BEEN STRENGTHENED, VIS-A-VIS VARGAS, IN VIEW OF THE ANNOUNCEMENT TODAY THAT GEN. SOLON ESPINOSA, WHO HAD CHALLENGED DURAN'S AUTHORITY TWO WEEKS AGO, HAD BEEN RELIEVED OF HIS COMMAND. HE ALSO SAID THAT DURAN INTENDED TO CALL VARGAS ON THE CARPET TO CHEW HIM OUT ABOUT THE PRESS LEAKS REGARDING THE TALKS WITH GULF AND THAT HE, POVEDA, HAD ALREADY CALLED DOWN VARGAS ON THE FACT THAT HE WAS OUT ATTEMPTING TO PEDDLE GULF'S CRUDE. WHILE I DID NOT COMMENT DIRECTLY ON THESE REMARKS, AT ANOTHER POINT IN THE CONVERSATION WHEN POVEDA TOLD ME THAT THEY HAD TO "MANAGE" VARGAS CAREFULLY I OBSERVED WRYLY THAT UP TO NOW IT LOOKED TO ME AS IF VARGAS HAD BEEN "MANAGING" THE COUNCIL.

6. I HAVE INFORMED GULF OF THE FOREGOING AND WE HAVE AGREED THAT THEY WILL CONTINUE TO NEGOTIATE IN GOOD FAITH TONIGHT ON THE BASIS OF THE DRAFT DECREE NOW ON THE TABLE. AT THE SAME TIME THEY ARE PREPARING AN ALTERNATIVE DECREE THAT WOULD CONFIDENTIAL

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IN EFFECT EMBODY THE MEMORANDUM OF OCTOBER 1 AND THUS PROVIDE FOR A CONTINUATION OF THE NEGOTIATIONS, WITH THE EVENTUAL SETTLEMENT TO BE RETROACTIVE TO DECEMBER 31.
ASSUMING, AS I DO, THAT TONIGHT'S SESSION WILL BE UNSATISFACTORY, I WILL SEE POVEDA TOMORROW AND PROPOSE THE ALTERNATIVE DECREE TO HIM.
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